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SUBJECT: RUBBER GROWS INTO NEW CASH CROP IN THAILAND'S NORTH

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Summary and Comment

¶1. As southern China's appetite for raw materials continues to grow, northern Thailand's agricultural sector is adapting by expanding rubber production, which is a traditional sector of southern Thailand. After a significant effort to expand the area of rubber-producing land in the north under former Prime Minister Thaksin Shinawatra, the RTG continues to support farmers that wish to grow this new northern cash crop through subsidies and technical assistance. Both small and large farmers are seeing the financial benefits of changing their northern rice paddies to rubber plantations, and some southern Thai farmers are even relocating to the north where religious violence is not a looming threat.

¶2. Comment: It is noteworthy that despite the RTG's habit of providing price guarantees and support to more traditional crops (such as rice and corn), it is, above all, market forces that are pushing farmers toward rubber production. Although government support to expand rubber production was significant during the Thaksin era, present levels of support focus on sustainability of the sector rather than its expansion, with much of the funds being used coming from taxes on rubber exporters. If this policy process-- where more profitable parts of the rubber sector (exporters) support the less profitable (farmers) -- proves successful, it could serve as a new, more market-based model for government support of Thailand's agricultural sector. End Summary and Comment.

Background: Land of a Million Rubber Fields

¶3. Known historically as Lanna (meaning "Land of a Million Rice Fields"), northern Thailand is gradually adopting rubber as a new major cash crop. Since the era of former Prime Minister Thaksin Shinawatra, the RTG has had a policy to support the expansion of rubber production outside of its traditional base in Thailand's south, a policy initiative fueled by southern China's growing demand for rubber. Phayao province, located on the northern Thai-Lao border, became the birthplace of former PM

Thaksin's "One Million Rai" policy, which sought to cultivate one million rais of land (approximately 400,000 acres) as rubber plantations.

¶4. Traditionally, northern Thai laborers have served as temporary workers harvesting liquid rubber at southern Thai plantations. By the early 1990s, many of these farmers, particularly in Phayao province, who saw the economic benefit of producing this raw material, began to carry young rubber trees from the south to the north to grow on their own land. As this trend continued, local government officials observed how rubber was expanding incomes in their province; and those officials passed the message on to Phayao's Member of Parliament (MP). Finally the MP told former PM Thaksin about this success story, and the One Million Rai program became a national policy.

¶5. While Phayao is considered the birthplace of rubber production in Thailand's north, farmers from across the northern region are gradually turning their rice paddy fields into rubber plantations. In Chiang Rai province alone, about 40,000 acres of land now grow rubber trees, with an estimated 1,000 to 4,000 new acres cultivated each year, according to the Chiang Rai Rubber Planting Aid Fund. Presently, another 40,000 acres are estimated to be rubber plantation land in Phayao province. Across the northern region, an estimated 120,000 acres of land are growing rubber, according to the Phayao Rubber Planting Aid Fund. The same office estimates the northern Thai rubber plantation's productivity to be about 1,700 lbs/acre per year, meaning annual regional yield of about 100,000 tons.

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Northern Provinces Promote Rubber Production

¶6. While market forces, specifically growing demand for rubber resources in nearby southern China's Yunnan province, seem to be the main driving force behind this new cash crop, government support has helped to sweeten the deal for northern Thai farmers. Currently, over 90 percent of northern Thailand's rubber plantations receive some form of government support. Government support is issued through provincial level Rubber Planting Aid Fund offices, which are under the RTG's Ministry of Agriculture and which together function as a nation-wide state-owned enterprise. Support from the Fund comes in two forms: direct subsidies and harvest training.

¶7. RTG subsidization for rubber production has been either to promote new land to grow rubber or to support land already under rubber cultivation. Government support that expands the area of land under rubber cultivation was first administered under the Thaksin-era One Million Rai program, which ended two years ago. Between 2003 and 2007, across Thailand, the RTG freely offered to farmers 225 young rubber trees per acre of land under new cultivation via provincial Rubber Fund offices. In Chiang Rai province, for example, the One Million Rai program added about 3,000 acres per year of rubber plantation during its implementation, a contrast to the less than 600 acres per year added over the previous decade.

¶8. Since 2007, the Ministry of Agriculture has shifted away from

promoting the expansion of land growing rubber trees (a trend continues anyway due to market forces) to supporting land already under rubber production. One way is grants from the provincial Rubber Replanting Aid Funds to subsidize the replacement of old rubber trees with young ones. The fund will issue "small" farmers (those who only farm three to five acres of land) a payment of \$820 per acre to replace old trees. (Note: The provincial rubber replanting funds are made up of rubber export tariffs collected nation-wide.) Large rubber plantations are not eligible for this replanting support.

¶9. Another Rubber Replanting Aid Fund initiative to support rubber planters is harvest training. The fund will finance regular courses where farmers learn how to harvest and prepare raw liquid rubber from trees. Econ staff observed one such training course at the Phayao Rubber Replanting Aid Fund office, which hosted 40 students, all of whom own or work on small rubber farms. According to the course trainers, one person should be able to tap 400 to 500 trees per day; and the course helps farmers and their working family members to reach this productivity level. With each farm containing about 800 to 1,000 trees, maximizing harvesting productivity means that the farm owners do not need to hire outside labor, keeping costs low.

Big Farm, Little Farm

¶10. Although government support for northern Thai rubber production is limited to the small farms, high rubber demand from southern China is attracting big companies to invest in northern rubber production as well. In Chiang Rai province, three major companies have invested in rubber plantations, two of which are major Thai beer manufacturers. The Singha Company developed a 1,000 acre rubber plantation in Chiang Rai last year. The Terrago Company, a subsidiary of the Chang Beer Company, started an 800 acre plantation last year. And, the Thai Rubber Latex Company has invested in over 2,500 acres of land over 2007 and 2008.

¶11. Similarly, it is market forces - rather than government support - that is attracting small farmers to the rubber sector as well. Though small farmers certainly welcome the free

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training and subsidized tree replacement, these are not their main motivations for switching to rubber growing. One newly converted Phayao rubber farmer said that he used to grow corn, but switched because he noticed that other farmers were growing rubber and were earning more revenue for less work. He noted that he cannot use all of his 2.5 acres for rubber; he has to grow some rice to keep steady income while he waits seven years for the trees to mature. The son of another Phayao rubber farmer said that he is helping his father grow and harvest rubber on their 3 acre farm. He said that because rubber trees do not require the regular attention of other crops such as rice and corn, he has time to also run a small internet cafe in the nearest town. So, for this farmer, not only does the crop have a higher market value, but it also provides more time for other income-generating activities.

Southern Farmers in Northern Farms

¶12. In addition to northern farmers switching from traditional crops to rubber, southern Thai farmers are moving their rubber plantations from the south to the north because they are growing tired of the threat of violence in their home provinces. One Phayao village leader told us that his province has "rubber fever" because so many southern Thais have relocated there to start rubber plantations. This village leader said that about 30 to 40 southern Thai families have moved to his district of Phayao in recent years to start rubber plantations. He said that local farmers will sell their land for \$800 to \$1,400 per acre to southerners who buy from several small northern farmers to create large rubber plantations. He said that one recent arrival from the south already owns 800 acres of agricultural land in his district and that about 4,000 acres of the district are growing rubber trees. He said, "This region is turning into a rubber economy."

ANDERSON